Twitter Thread by Genevieve Roch-Decter, CFA



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With $GME hitting all time highs, making people millions & some even billions, let's take a look at one of the gaming companies set to IPO soon.

Time for a thread ■ ■■

1/ Roblox is like the world's largest:

■ HOTEL COMPANY #AirBnB ■ doesn't own real estate
■ TAXI COMPANY #Uber ■ doesn't own any cars

AND

■ DIGITAL PLAYGROUND COMPANY #Roblox ■ doesn't create any games

2/ Digital Disney World.

Remember building imaginary forts with your friends in your backyard?

It's like that except digital, pros are building the structures and your parents are spending a lot of $$$ buying gear, digital pets and accessories.

Making $RBLX very rich!



3/ Business Model.

Online gaming platform where millions of kids (and some adults) come to play, learn, communicate, explore, and expand their friendships.

All in 3D digital worlds that are entirely user-built.

4/ Highlights.

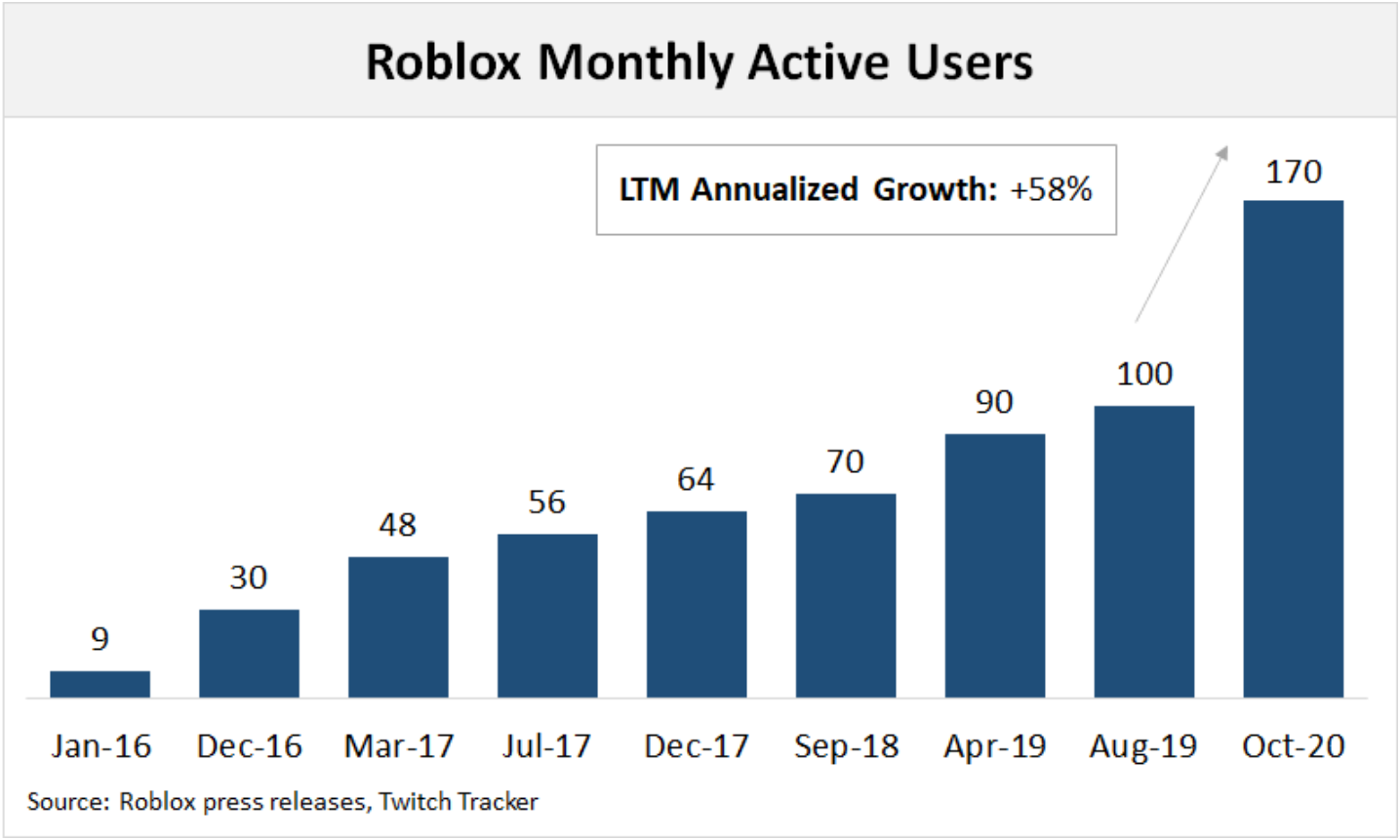
- Founded in 2004
- $589MM revenue
- +170MM monthly active users (Oct 2020)
- Freemium, monthly subscription & one-time payments
- US$29.5B Valuation

5/ Growth.

No doubt COVID was big for $RBLX; with kids stuck at home they clocked some serious hours.

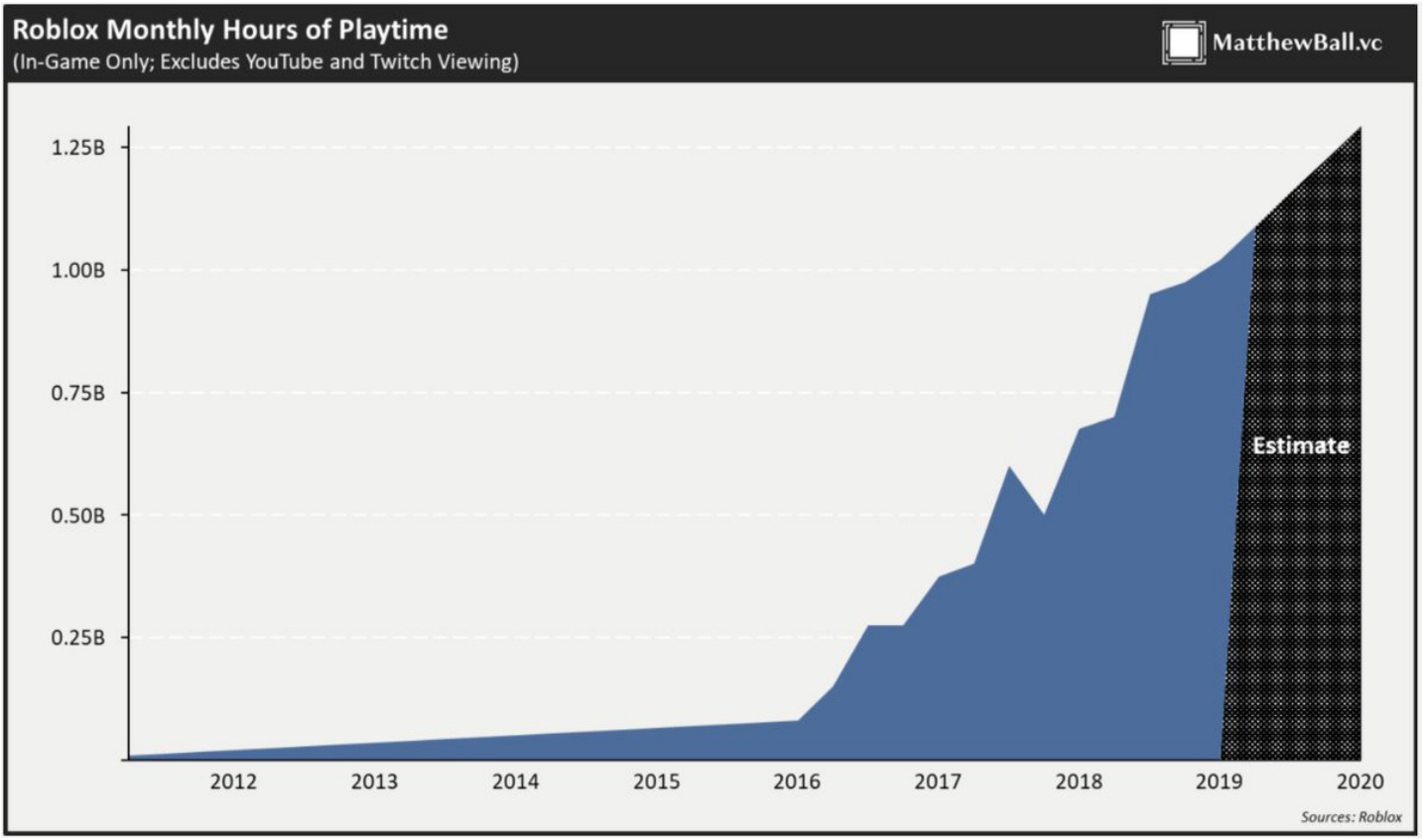
Revenue was up +68% year-over-year to +$588MM (9 months ended Sept 2020).

But, even pre-covid, the trend was their friend as NEW users flocked to the platform!



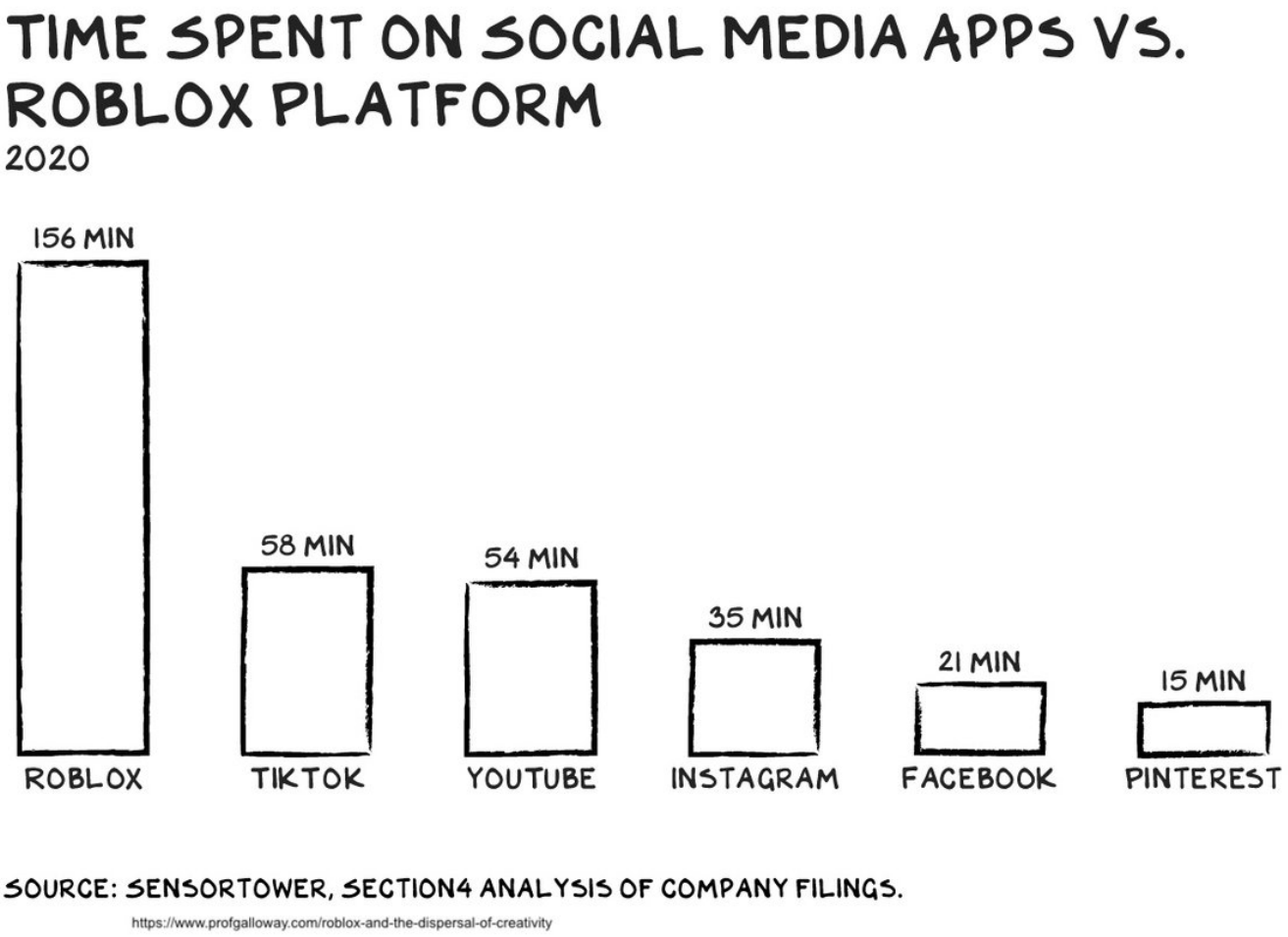
6/ Growth cont.

And spent an ever increasing amount of time playing on it.



7/ Addiction.

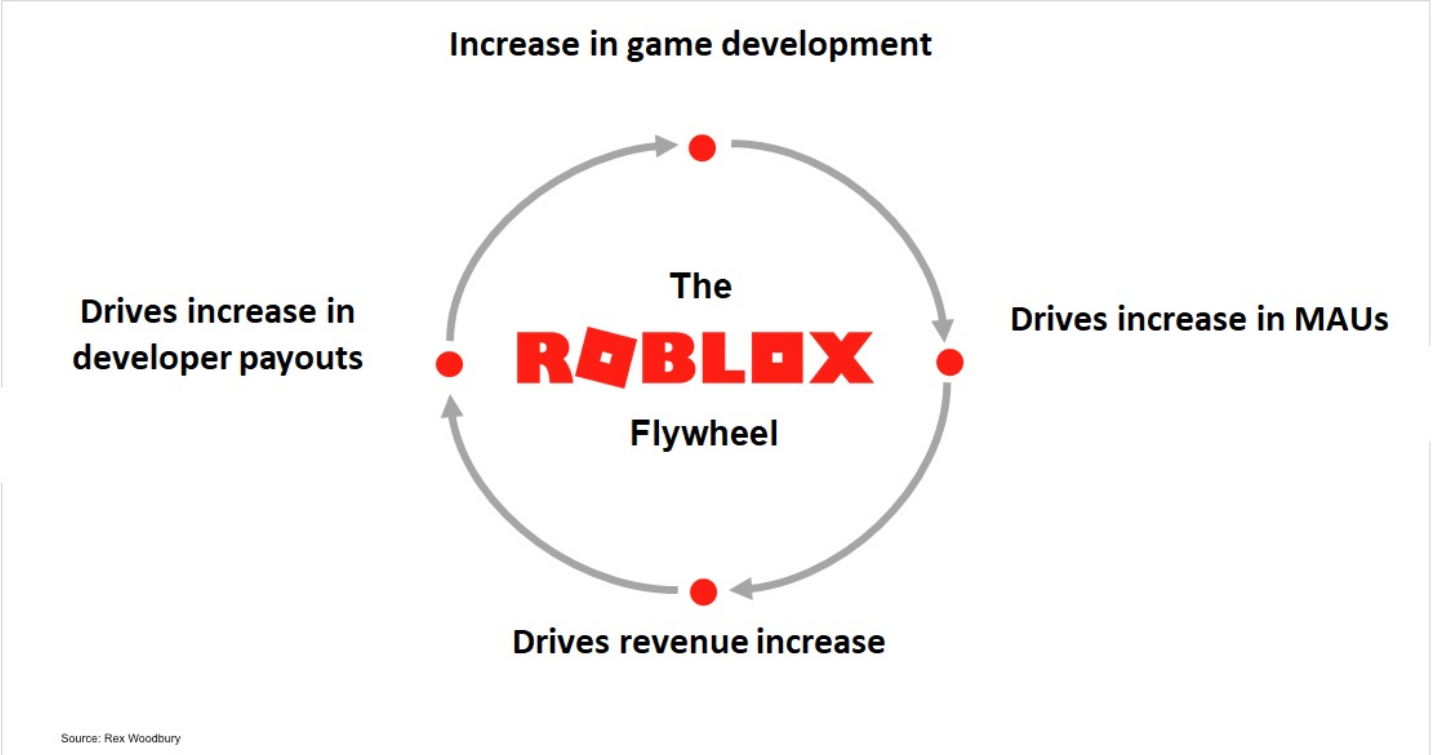
And they are completely addicted. Compare $RBLX to the other MAJOR platforms that compete for our attention and it’s absolutely jaw dropping!



8/ Flywheel.

That’s because they’ve nailed the ‘Holy Grail’ of the platform economy: getting customers addicted!

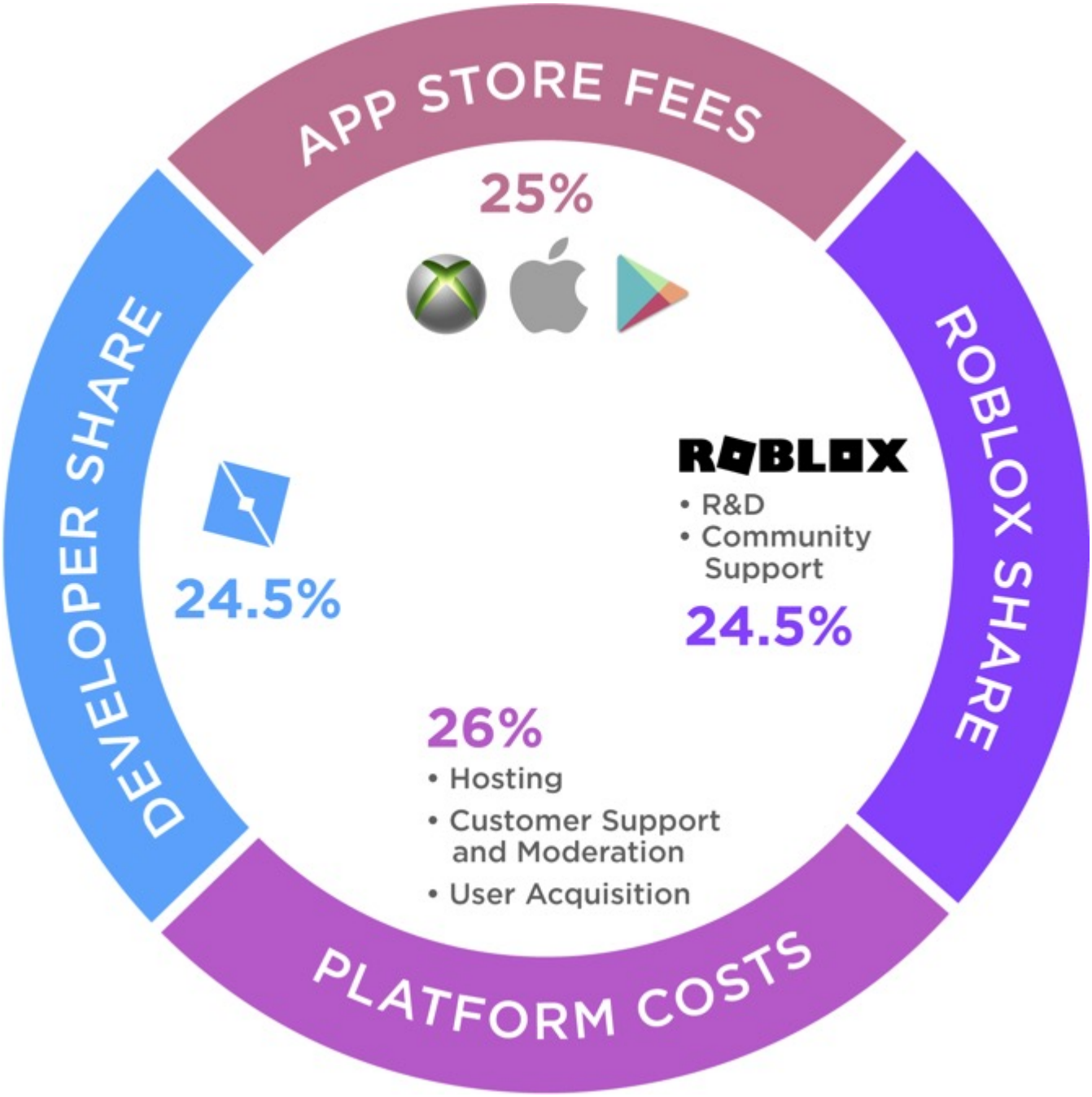
Attract CUSTOMERS ↔■ which attracts DEVELOPERS who create great content ↔■ Attracting More CUSTOMERS



9/ Developers.

To keep content quality high, their customers coming back and the flywheel spinning, they share a decent amount of their revenue with their developers: +$250MM in 2020.

This has attracted an astonishing +7MM developers!



10/ Developer cont.

BUT, this is only a 25% payout of revenue to developers. If you compare it to other marketplaces its not a lot:

70%: Apple App Store
75-85%: Amazon (similar to Walmart)
95%: Etsy

Sustaining such a high ‘take-rate’ is insanely impressive for $RBLX

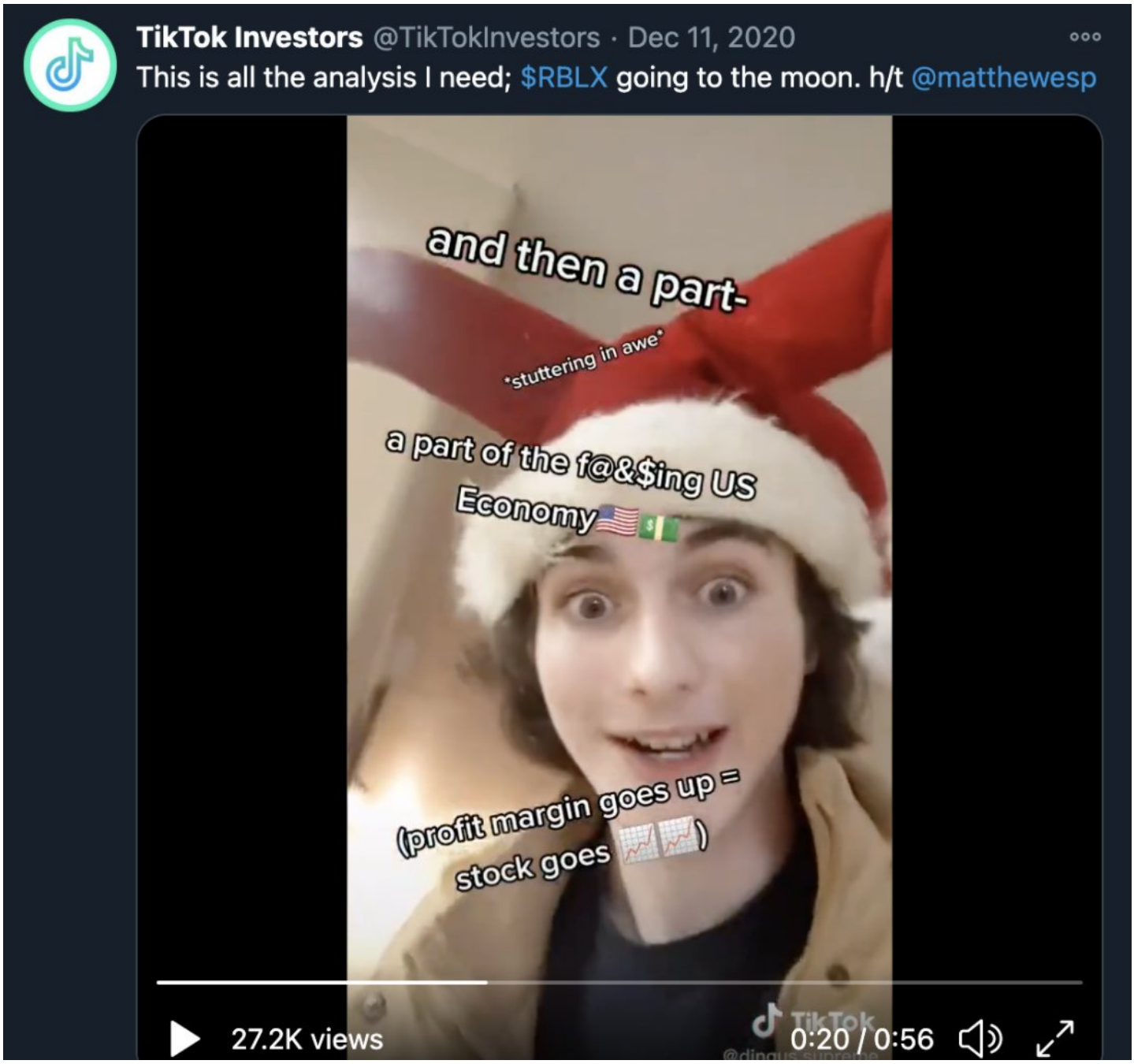
11/ ROBUX.

Is the 'in-game’ currency that powers the ecosystem. It costs real fiat to buy. Customers use it to BUY:

- Games

- Virtual Items
- Animations & Unique Abilities

Fanatic customers are even saying "Robux will replace the USD" ;)



12/ Profitability.

Do they actually make money?

Technically, on paper, NO.

Net loss of $203.2MM in the 9 months ended September 30, 2020.

BUT...

14/ Free Cash Flow.

If you look at their FCF its skyrocketing: $292MM up from a mere $5.9MM the year before.

CA$HING!

	Year Ended December 31,		Nine Months Ended September 30,	
	2018	2019	2019	2020
	(in thousands, except hours engaged and ABPDAU data)			
Non-GAAP and selected financial and operating data:				
Bookings(5)	$ 499,038	$ 694,262	$ 457,959	$ 1,240,232
Loss from operations (GAAP)	$ (96,653)	$ (91,456)	$ (50,896)	$ (206,234)
Depreciation and amortization (GAAP)	$ 11,941	$ 27,664	$ 19,179	$ 30,232
Stock based compensation (GAAP)	$ 36,310	$ 17,634	$ 11,696	$ 58,631
Change in deferred revenue (GAAP)	$ 187,244	$ 208,086	$ 109,373	$ 656,071
Change in deferred cost of revenue (GAAP)	$ (45,747)	$ (53,463)	$ (28,854)	$ (162,166)
Net cash provided by operating activites (GAAP)	$ 101,038	$ 99,185	$ 62,637	$ 345,336
Free cash flow(5)	$ 34,966	$ 14,456	$ 5,961	$ 292,623
Daily active users (DAUs)(6)	12,017	17,623	17,121	31,064
Hours engaged (millions)(6)	9,429	13,652	9,951	22,172
Average Bookings per DAU (ABPDAU)(6)	$ 41.53	$ 39.40	$ 26.75	$ 39.93

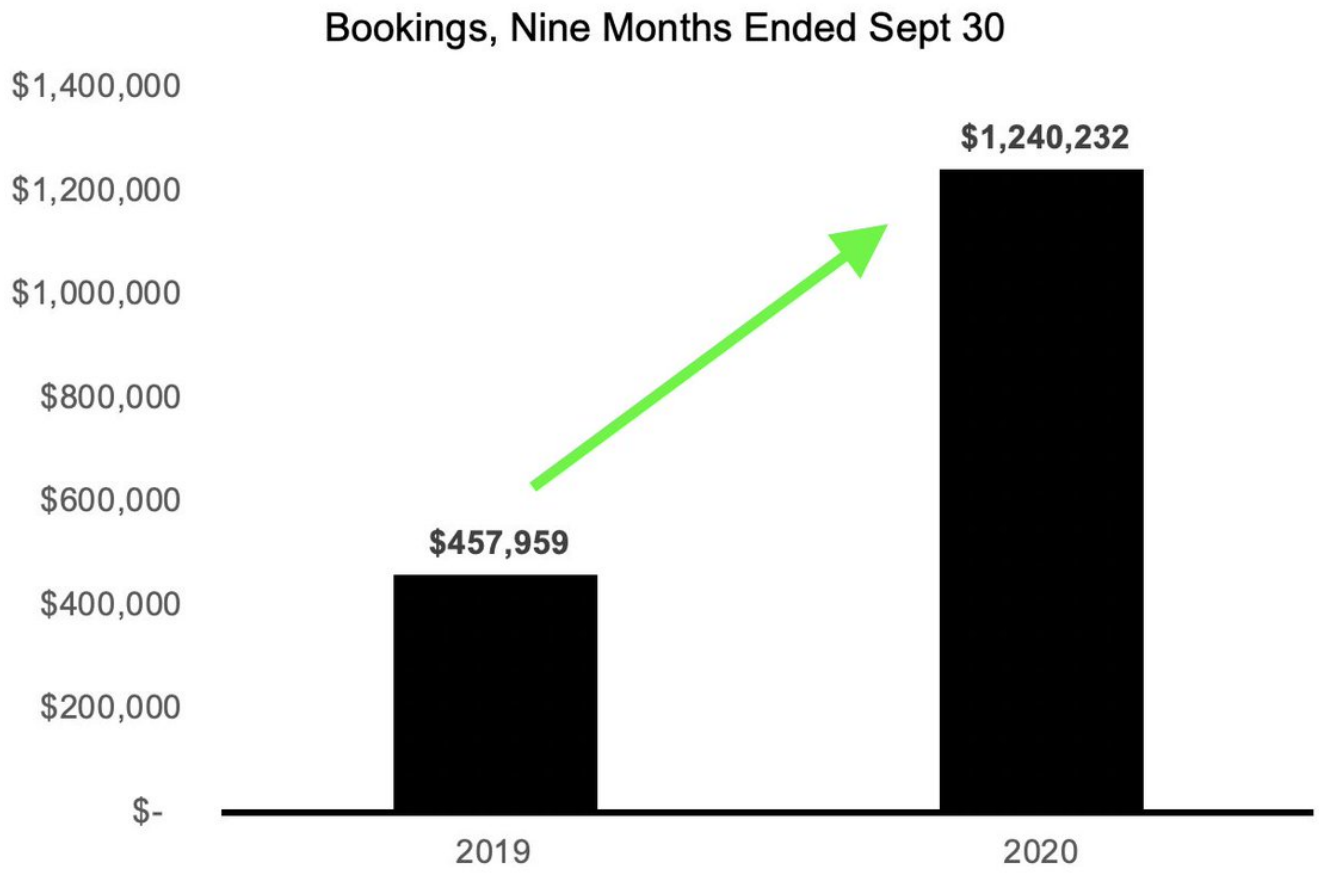
(1) Depreciation of servers and infrastructure equipment included in infrastructure and trust & safety.
(2) Includes stock-based compensation as follows:

15/ Bookings.

You can see it in their bookings, which grew +170% YoY.

So why a net loss with such high FCF?

Because although the money is “in the door”, they recognize it over 23 months (estimated average lifetime of a paying user)



16/ Balance Sheet.

You can see the cash piling up over on their balance sheet:

-NO DEBT ($50MM undrawn line)
- +$800MM cash (at Sept 2020)

Plus, on Jan 7th they raised another US$520MM in a pre-IPO financing.

17/ Competitors

While 99% of the public will say Roblox's biggest public "competitor" is Unity Software (U-US, $39B). I argue that is a false narrative beyond investors bucketing them as "gaming" companies.

But $U has done very well. Up +300% since its #IPO in September.

18/ Competitors Cont.

The 2 more appropriate competitors are both private and booth owned by major companies:

- Minecraft 130MM active users
- Fortnite 350MM active users

Roblox is giving them a real run for their money with +170MM active users as of October 2020.



19/ Growth.

I see 4 key growth drivers that could yielding hundreds of millions of dollars:

1.Advertising
2.Cross-Over JVs
3.Subscriptions
https://t.co/K9t7BjumyG Expansion



20/ Love the thread?

Want more on $RBLX ?

- Growth
- Risks
- Valuation
- Should you buy on the IPO?

Read the rest here in my (FREE) weekly newsletter ■ ■■

https://t.co/h7qeybRf2R

#Gaming #Stocks #NASDAQ

I can’t believe I forgot to tag @Roblox @DavidBaszucki @CasselErik